

# Digest of a Performance Audit of Higher Education Non-Lapsing Fund Balances

In response to a legislative request, we have conducted an extended survey of the non-lapsing fund balances at five institutions in the state's higher education system. Although non-lapsing fund balances have grown 63 percent system-wide from fiscal year 1992 through fiscal year 1996, about half of the growth during that time can be associated with increased total revenues. In addition, the institutions we contacted generally provided reasonable explanations for growth in their balances. Also, other states' higher education systems have non-lapsing revenue sources. Our review of the uses of these non-lapsing balances in Utah indicates that uses are one-time in nature and reasonable. However, we have concerns about the adequacy of record keeping on balances at some of the institutions. In addition, we reviewed the liability for compensated absences and early retirement costs as it affects the reporting of non-lapsing balances. Information on fund balances and the liability can be reported more accurately to the Legislature.

The following paragraphs briefly describe the findings of our audit:

**Growth of Non-Lapsing Fund Balances Appears Reasonable.** Non-lapsing or carry-forward funds in Utah's higher education system have grown from \$23.1 million at the end of fiscal year 1992 to \$37.7 million at the end of fiscal year 1996, a 63 percent increase. These figures reflect all state fund sources for higher education. During the same time, total available revenue for the system increased by 30 percent. Reasons for fund balance growth include the growth in available revenue as well as a variety of reasons specific to each institution surveyed. We believe that the explanations for growth in fund balances provided by the institutions are reasonable. In addition, comparisons with other states' higher education systems show that all the states which provided information have non-lapsing balances. Some of those states restrict the size or use of non-lapsing fund balances.

**Uses of Carry-Forward Funds Seem Appropriate.** The uses of non-lapsing balances in the five institutions we reviewed are generally one-time in nature and reasonable. Large portions of balances are obligated for specific purposes such as outstanding purchase orders (usually one-time purchases) and required fuel and power reserves (reasonable because required), while uses of department balances we reviewed were one-time and instructionally related. Next, although whether a manager keeps or loses ending balances is a factor in year-end spending patterns, we found reasons other than having funding taken away which help explain increased year-end spending patterns. Further, purchases appeared to be appropriate and reasonable.

**Some Concerns Remain.** Having found that the growth of non-lapsing balances is generally reasonable and uses to which these funds are being put are also reasonable, we identified a

few concerns during the audit. First, reports to the Board of Regents and the Legislature can be improved. Second, tracking and record keeping of non-lapsing balances vary in the institutions. Because their management information systems are not set up to track fund balances separately, we have some concerns about the adequacy of record keeping at two of the institutions. Third, reliability or at least consistency of information from institution to institution is a concern. Finally, the liability for compensated absences and early retirement is unfunded in higher education; the Legislature needs to decide whether any action is needed in this area.

**Legislature Has Options If Action Is Deemed Necessary.** Our audit did not find criteria sufficient to indicate that the level of non-lapsing balances accumulated to date are unusually high. We also did not find any major problems or concerns with the way the institutions we reviewed are spending their non-lapsing balances. However, the review was complicated by the fact that the institutions generally do not track these carry-forward funds as a separate “pot” of money. As noted, one institution, Utah State University, has a policy in place regarding the use of non-lapsing balances. Informal controls do exist at other institutions, however. For example, staff at all the institutions told us that non-lapsing balances should be used only for one-time purposes. Therefore, it is a matter of choice for the Legislature to decide what action, if any, is needed regarding these funds.

Further information and recommendations can be found in the full report.